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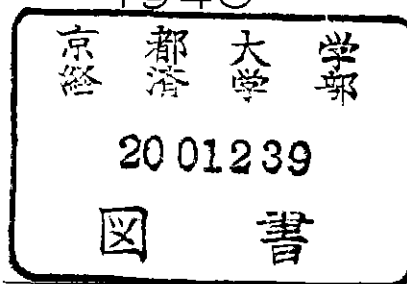
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THE PROGRESS OF MONETARY UNIFICATION IN THE MÈNG CHIANG PROVINCES

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I THE PRE-INCIDENT PERIOD

The monetary and financial situation in the Mongolian provinces has been undergoing steady improvement since the beginnings of the present China Incident. It was, however, only after November 22, 1937 (the 26th year of the Chinese Republic), when the Chanan (Southern Chahar), the Chinpei (Northern Shansi), and the Mèngku (Mèngku Federation) Autonomous Governments were affiliated that this enterprise began to be undertaken in accordance with a definite programme. The very first concrete step taken under this project was the establishment of the Mèng Chiang Bank, which paved the way for future progress. Within the administrative areas of these three governments, the plan for monetary unification and the reorganization of the financial structure was contemplated as soon as the social and

1) On November 22, 1937, a joint organization as the Mèng Chiang Joint Committee. On September 1, 1939, an amalgamated organization as the Mèngku Federal Autonomous Government.

political order had been more or less restored after the Incident, and work is now being carried forward jointly by the three governments.¹⁾ Prior to the outbreak of the Incident, however, each political province was dominated by its own peculiar monetary and financial condition. Therefore, our discussion of the subject-matter will be preceded by a brief description of the changes that had taken place in each of these political administrative areas prior to the Incident.

1. Chahar Province

Prior to the birth of the Chinese Republic, financial affairs in Chahar Province in general were under the virtual control of the Shansi organization. Later, in 1915 (the 4th year of the Republic), the Bank of China established a branch office in Kalgan, and thereafter branches were opened in the Province by the Bank of Communications, the Central Bank of China, the Provincial Bank of Hopei and others, each of which issued bank notes in the Province. During the years immediately preceding the outbreak of the present disturbance, the Chahar Commercial Bank occupied the position of a central financial organ and had enjoyed relative success in business enterprises even under the military régime. This bank was established as a semi-governmental institution with a declared capital of Chinese \$ 500,000, and was vested with the privilege of issuing the Chahar Commercial Bank notes.

In addition to the above-mentioned bank notes, there were also in circulation in the Province notes issued by the Kalgan branch of the Bank of communications and the Central Bank of China, and the Peking Tientsin branches of the Bank of China, the Bank of Communications, and the Chunnan Bank, the Commercial Guarantee Bank of Chihli, the Agricultural and Industrial Bank of China, the Provincial Bank of Hopei, and the National Industrial Bank of China, etc. There were in circulation also several kinds of silver cent tokens and copper coin tokens. The coins in circulation consisted of silver dollars of several kinds and copper coins of 10-

cash and 20-cash denominations.

2. Suiyuan Province

In the years before the republican régime the financial affairs of Suiyuan Province were also under the sway of the Shansi organization just as they had been in Chahar Province. In the pre-Incident years, the function of the central financial organ was performed by the Suiyuan Ping Shih Provincial Bank, a government institution operating since 1920 (the 9th year of the Chinese Republic) with an authorized capital increased to Chinese \$ 1,700,000. The Feng Yeh Bank established in the same year with a declared capital of Chinese \$ 1,000,000 claimed to be the only private bank in the Province and enjoyed the privilege of issuing *chao piao* (silver paper money). There was in the Province an official local bank known as the Sui-Hsi Farmer's Bank which was established as a colonial bank in 1932 (the 21st year of the Republic), with its head office at Pao-tow and enjoyed the right of note issue. In Kwei-sui the Shansi Provincial Bank maintained a branch office and served the business interests of both Shansi and Suiyuan Provinces. In Kwei-sui there were also branch offices of several other banking institutions such as the Bank of China and Bank of Communications, both of which expanded into this district under the supervision of their Tientsin branches along with the opening of the King-sui (Peking-Suiyuan) Railways. There was also a branch of the Commercial Guarantee Bank of Chihli.

The currencies that circulated in the Province comprised silver dollars which had been imported after the revolution and *pu yin* (transfer money) issued by the Chinese Native Banks. In the years immediately preceding the Incident, neither *pu yin yan* (transfer money) nor silver dollars were in circulation, the only metallic currency found in circulation being copper coins. The paper moneys then in circulation

consisted of silver dollar notes issued by the Suiyuan Ping Shih Provincial Bank, the Fêng Yeh Bank and the Sui-Hsi Farmer's Bank, the northern notes issued by the Bank of China and the Bank of Communications, and also the notes issued by the Central Bank of China, the Shansi Provincial Bank, the Suiyuan District Cultivation Office, and the Commercial Guarantee Bank of Chihli. In addition there were several classes of silver cent and copper coin tokens. Incidentally, it was reported that in Suiyuan Province there existed a local custom commonly known as *ssu piao pa lo* which regulated the borrowing and the lending of money.

3. Shansi Province

That the so-called Shansi Monroe Doctrine established in the Province in general had penetrated deeply into the local financial institutions is clearly evidenced by the fact that the government-owned bank called the Shansi Provincial Bank was able to claim the position of leading financial institution of the Province. The position occupied by this bank as a central bank was undisputed. Established in January, 1919 (the 8th year of the Republic) and reorganized in July, 1932 (the 21st year of the Republic), the bank claimed to hold a capital of Chinese \$ 12,000,000 and operated branches and sub-offices in almost every part of the Province.

Shansi Province was served also by other official banks such as the Bank of Local Railway of Shansi and Suiyuan, the Sui-Hsi Farmer's Bank and the Shansi Provincial Salt Bank, and also the Federal Real Reserve Bank established in December, 1935 (the 24th year of the Republic). The Province was served then jointly by these banks, of which the first three named will be briefly described below.

The Bank of Local Railways of Shansi and Suiyuan was established in March, 1934 (the 23rd year of the Republic) with a capital of Chinese \$ 10,000,000. As is indicated by its name, the bank was operated as the treasury of the local railways in the two provinces, aiming particularly at

the construction and the operation of the Tung-Pu (Tatung-Taiyuan) Railways. Accordingly, the bank maintained branches in the principal towns along these railway lines.

The Sui-Hsi Farmer's Bank, which was capitalized at Chinese \$ 600,000 was founded in 1932 (the 21 st year of the Republic), and maintained its head office at Pao-tow, a branch at Taiyuan, and sub-branches and agents at minor towns in Shansi Province.

The Shansi Provincial Salt Bank was organized in 1934 (the 23 rd year of the Republic) with a capital of Chinese \$ 2,000,000 establishing its head office at Tai-yoh and a branch office at Taiyuan. In this last named town, the branches of the Bank of China, the Bank of Communications and the Farmer's Bank of China were also carrying on banking business.

The monetary system of the Province was dominated by the notes issued by the four government banks, namely, the Shansi Provincial Bank, the Bank of Local Railway of Shansi and Suiyuan, the Shansi Provincial Salt Bank, and the Sui-Hsi Farmers' Bank. Other currency notes in circulation in the Province comprised Notes for Exchange of Native Goods, Notes for Joint Cultivation of Farm Land, private notes issued by authorized pawn dealers, etc. While some non-provincial notes such as those issued by the Bank of China, the Bank of Communications, and the Farmer's Bank of China, circulated to a certain extent, the influence of these bank notes was so small that the monetary reform of China completed in 1935 (the 24 th year of the Republic) caused little or almost no change in the monetary situation in the Province. In the Chin Pei (Northern Shansi) district, *Sui piao* or the Suiyuan Ping Shih Provincial Bank notes were found to be in circulation to a limited degree and in the trains of the Cheng-Tai (Shihchiachwang-Taiyuan) Railways, the Provincial Bank of Hopei notes were encountered as media of exchange.

It was reported in Shansi Province that between 1933 and 1935, the period immediately preceding the reformation of the Chinese monetary system, the Shansi *piao* were being

converted into silver dollars on demand, but in the years before the Incident, silver dollars were no longer to be found except in and around Lin-feng in the southern part of the Province. Minor currencies in circulation consisted of silver cent tokens, copper coin tokens and copper coins, but currency of this type will not be discussed in detail in the present study.

II THE POST-INCIDENT PERIOD

The goal of the monetary and financial reforms undertaken in the Mèng Chiang Provinces since the restoration of political order in these districts consists of the unification of the currency and the reorganization of the financial structure. The function of the central bank in these Provinces is now performed by the Mèng Chiang Bank, whose predecessor in this rôle was the Chanan Bank which, in turn, succeeded the Chahar Commercial Bank. In order to arrive at the origin of the reform project under discussion, it is necessary to make a study of the history of this Bank inasmuch as it has long played the rôle of the central bank in the Chanan (Southern Chahar) district, operating with relative success even under the former military régime.

1. *The Chanan Bank*

On the eve of the entry of the Japanese army into Kalgan at the beginning of the China Incident the Chahar Commercial Bank officials fled from the city, carrying with them the Bank's cash and unissued bank notes, all the deeds in its possession, claims, books and all other documents. This wholesale absconding of the officials with unissued bank notes caused considerable insecurity in the currency situation in these districts and necessitated immediate action to meet the precarious situation. The Mèng Chiang Joint Investigation Committee reported on the sequence of events as follows.

The Japanese army entered the city of Kalgan on

August 27 and the new Chanan Government was established on September 4. On the preceding August 20 or thereabouts, the officers of the Chahar Commercial Bank, the central issuing bank of the Chanan district, fled from the city, taking with them on trucks *hsien ta yang* (silver dollars), Chinese legal tender (notes), unissued notes, and the entire series of books and documents belonging to the bank. The total amount of note issue of the bank was estimated at about Chinese \$ 5,000,000, of which about Chinese \$ 2,000,000 consisted of the so-called Commercial Bank notes issued in the Peking-Tientsin district. These notes were supported by reserves, largely deposited with banks in Peking and Tientsin, the amount being larger than the total issue. With the outbreak of the political disturbance, however, the demand for the conversion of these notes into legal tender increased very suddenly in the Peking-Tientsin district, with the result that the major portion of these reserves had to be withdrawn from the depositories.

In the face of this emergency, there was felt an urgent need for establishing a new issuing bank in order to uphold the monetary system before the depreciation of the currency should become too far advanced. The project of monetary and financial reform then conceived aimed as a primary object, at the destruction of the currency then in circulation and at the organization, with locally raised funds, of a stable and unified financial structure which would be adequate for war-and-peace-time requirements. With this end in view, a moratorium was soon enforced, together with many other control and supervisory measures which were designed to stabilize financial conditions. It was on September 27 that the Chanan Bank, the predecessor of the present Mêng Chiang Bank, finally saw its foundation. The preparations for this important step were commenced early in September upon certain principles which were enunciated as follows:

- 1) The bank under conception shall be capitalized at Chinese \$ 1,000,000 to be subscribed entirely by the Chanan Government, which in turn shall obtain this fund from the

Central Bank of Manchou in the form of a loan.

2) The notes issued by the Chanan Bank shall be made legal tender and shall be linked with the Japanese yen and Manchoukuo yŭan currencies.

3) Pending the preparation of the new bank notes, the unissued notes of the Provincial Bank of the Three Eastern Provinces held by the Central Bank of Manchou shall be put into provisional use after effecting certain alterations.

4. The old bank notes shall be recalled during the 20-day period between October 1 and October 20, and those in circulation in the provinces are to be stamped and exchanged at a later date.

The withdrawal of the old bank notes was commenced as soon as the bank opened for business on October 1, those presented in Kalgan being exchanged for new notes and those presented in the provinces being marked with an identifying stamp authorising exchange with the new notes at a future date. It was reported that during the designated period of 20 days, old notes were withdrawn from circulation to the extent of some Chinese \$ 1,200,000 and stamped to a total of about Chinese \$ 1,300,000, and that before the middle of the ensuing December, the entire Chanan district was more or less cleared of the obsolete notes. While it seemed as though the 20-day period designated for the exchange of the old bank notes might prove too short, it was decided upon mainly to prevent the inflow of the missing bank notes.

Promised thus a successful future as the central financial organ in Suiyuan Province, the Chanan Bank was duly founded on September 27, 1937 with its head office at Kalgan, opening for business on October 1. Subsequently, its branches were established in Kwai-lai, Suan-kwa, Ta-tung, Suiyuan, and Pao-tow, and agents were appointed in Ping-ti-chuan, Feng-chên, Cho-lu and Peking, where preparations were made for the opening of branches. With this network of branches, the bank made an important contribution to the financial development of the districts along the King-sui (Peking-Suiyuan) Railways, though it still remained a

relatively small-scale organization.

Immediately subsequent to its foundation on September 27, however, there ensued considerable changes in the political field, as a result of which, on November 22, 1937, the Chanan, the Chinpei and the Mêngku Autonomous Governments were brought together under a joint organization known as the Mêng Chiang Joint Committee. In consequence of these political changes, the Chanan Bank was called upon to undergo reorganization in preparation for future expansion. In amalgamation with the Suiyuan Ping Shih Provincial Bank and the Fêng Yeh Bank, the Chanan Bank now re-emerged as the Mêng Chiang Bank, to which each Autonomous Government subscribed an authorized capital of \$ 12,000,000 (one quarter paid up) to the extent of \$4,000,000 each. This latter bank was established on November 23, 1937 and opened for business on December 1, 1937 in accordance with the Mêng Chiang Bank Law and the relevant regulations promulgated on November 22 of that year.

2. *The Mêng Chiang Bank*

Technically speaking, the Mêng Chiang Bank is a newly established institution, but in reality it was brought into existence as the successor to the Chanan Bank, which underwent reorganization and extension through absorbing the Suiyuan Ping Shih Provincial Bank and the Fêng Yeh Bank. Like its predecessor, therefore, the new institution was authorized to issue notes, the value of which was to remain at parity with the Japanese yen and the Manchoukuo yüan currencies. It was only during the period in which the new notes were under preparation that the bank continued to issue the renovated Chanan Bank notes, these and the notes of the other two defunct banks being exchanged subsequently for the notes of the new bank at par.

It is stipulated that the Mêng Chiang Bank, which was established under the aforementioned circumstances shall fulfil the following function:

- a. The control of the money market in the Mêng Chiang Provinces,¹⁾
- b. Administration of the fiscal business of the Governments,
- c. Operation of ordinary banking business,²⁾
- d. The manufacture and the issuance of currency.³⁾

The bank maintains its head office at Kalgan and branches at Ta-tung, How-ho (former Suiyuan), Pao tow, Ping-ti-chuan, Suan-hwa, Kwai-lai, Cho-lu, Peking, Tulunnoerh, Chang-peh and Feng-chen. In connection with its exchange business, the bank has correspondents in the principal cities and towns in Japan and Manchoukuo.

An analysis of its operations reveals that the bank has enjoyed appreciable success and progress despite its short history, many of its early problems having been brought to satisfactory solution. The bank makes special efforts to promote foreign exchange business, entering into correspondent agreement with the Yokohoma Specie Bank on June 1, 1938 (the 27th year of the Republic) and effecting a general reduction in remittance charges after June 5 of that year.⁴⁾

1) The Mêng Chiang Bank Law, Article 1: The Mêng Chiang Bank shall be a joint-stock corporation with a capital of twelve million yüan and shall be responsible for the regulation of financial affairs within the Mongolian provinces.

2) Article 4: In addition to handling the fiscal business of the Autonomous Governments and the public funds of the various local public bodies, the Mêng Chiang Bank shall operate ordinary banking business.

3) Article 3: The Mêng Chiang Bank, under the authorization of the Mêng Chiang Joint Committee, shall manufacture and issue currency.

The Mêng Chiang Bank shall hold reserves in excess of one quarter of its total note issue, consisting of gold or silver bullion, secure currencies other than those issued by the said bank, or deposits with foreign banks in these mentioned currencies.

In case the specie reserve stipulated above falls below one quarter of the total note issue, the Bank shall pay the Mêng Chiang Joint Committee a tax equal to 3 per cent *per annum* of the excess amount of issue. However, this shall not apply in case the excess issue does not persist for a period of more than fifteen days.

4) Article 2: The Mêng Chiang Bank shall maintain its head office at Kalgan, and branches or agents at any necessary point by permission of the Finance Committee of the Mêng Chiang Joint Committee. The Mêng Chiang Bank, by permission of the Finance Committee of the Mêng Chiang Joint Committee, can enter into agency agreement with another bank or banks.

3. *The Shih Yeh Bank*

Formerly the old-fashioned Chinese financial organs such as *chien chung* (Chinese Native Banks) occupied an important position in the financial activities of the country, operating exchange business and issuing private notes. While the so-called Shansi *piao hao* now remain only as historical documents, they made the name of Shansi Province famous as the birth-place of these media of exchange. These old-fashioned financial institutions were found mostly in the neighbourhood of the large communities of the Mêng Chiang provinces, around Taiyuan in Shansi, around Kwei-sui and Pao-tow in Suiyuan, and around Kalgan in Chahar.

In consequence, however, of the development of the new project for the unification of the currency system and the reorganization of the financial structure in the Mêng Chiang provinces subsequent to the outbreak of the Incident, the situation steadily became more favourable for the unification of these *chien chuang*. Before the similar problem had even been envisaged in Hopei and Shantung Provinces in North China, the Autonomous Governments of Mongolia had already adopted the policy of unifying these private banks within their domains into a single organization. On February 28, 1938 the bankers in these districts met for a conference in Kalgan and on March 1 they organized the Chanan Shih Yeh Bank at Kalgan, the Chinpei Shih Yeh Bank at Ta-tung, and the Mêngku Federation Shih Yeh Bank at How-ho, each with a capital of 1,000,000 yüan. The Mêng Chiang Bank provides these banks with leadership and supervision and in this capacity the Bank has been working successfully for the unified control of financial institutions, for the prevention of the breakdown of local finance, for the relief of agricultural villages, and for the promotion of petty commercial and industrial undertakings.

4. *Monetary Unification.*

The reform programme involving the financial and

monetary structure that has been carried out in the Mèng Chiang districts since the beginning of the Incident involves currency unification under a centralized control of financial institutions. In effect it strives for the stabilization of the monetary system based on the Mèng Chiang Bank notes. In the districts under review, there is no fundamental legal system directing the monetary policy; regulations now in effect consisting merely of the Emergency Currency Protection Act promulgated on October 1, 1937 at the time of the opening of the Chanan Bank, predecessor to the present Mèng Chiang Bank, and the Mèng Chiang Bank Law first applied on November 22, 1937.

The Emergency Currency Protection Act was enforced by the Chanan Autonomous Government, (the first government established in North China after the Incident) in founding the Chanan Bank as issuing bank, in its effort to stabilize the financial conditions in these districts. The First Article of this regulation provided the Chanan notes with the status of unrestricted legal tender, at the same time making provision for the issue of minor currencies. Regarding the issue of the new bank notes, it was arranged that, pending their preparation, the unused notes of the Provisional Bank of the Three Eastern Provinces, then held by the Central Bank of Manchou, were to be put into circulation temporarily. It was arranged also that, with reference to auxiliary coins, that the 10-cent and 5-cent nickles and the 1-cent coins of the last-mentioned bank should be made available for the time being. While the other Autonomous Governments followed with the enactment of similar laws, it was actually after the establishment of the Mèng Chiang Bank under the Mèng Chiang Bank Law that the monetary system in those provinces began to show the steady progress that has brought it to its present condition.

Article 3 of the Mèng Chiang Bank Law stipulates that the Mèng Chiang Bank manufacture and issue currency under the authority granted by the Mèng Chiang Joint Committee, and hence while the Bank enjoys the privilege of

issuing bank notes, the right of note issue is vested ultimately in the Mêng Chiang Joint Committee. Under this provision the bank provisionally continued to issue the Chanan Bank notes prepared by renovating the unissued notes of the Provisional Bank of the Three Eastern Provinces specifically the 10-yüan and 1-yüan denominations, these being subsequently subject to substitution by newly designed notes of 1, 5, 10 and 100 yüan denominations. As for coins, the bank still continues to issue those of the Bank of Manchou, although new Mêng Chiang Bank coins of 50 cent denomination have already made their appearance in the market.

While it is apparent from Article 3, Item 2 of the Mêng Chiang Bank Law previously cited that this legal tender is to be supported by specie reserve, the Law makes no stipulation regarding the guarantee of reserves. In case of necessity, however, the bank is empowered to undertake an excess issue without complying with the requirement of one-quarter specie reserve. According to Article 3, Items 3 and 4 of the Law, such excess issue is subject to taxation payable to the Mêng Chiang Joint Committee. However, in case the excess issue does not continue for a period of more than 15 days, even this tax is remitted. It can be seen, therefore, that the Law entails very lenient requirements for regulating a currency system. In reality, however, the bank is not expected to face the necessity of undertaking temporary excess issue, and the adequacy of the system in case of future emergency yet remains to be seen.

It should be noted that the Mêng Chiang Bank notes, like those of many other countries in recent years, represent an inconvertible managed currency which is not supported by specie. While it is necessary, for an adequate control of this currency, to adopt a policy designed to stabilize the foundation of its reserve, and to maintain parity with the Japanese and the Manchoukuo currencies, as a part of the link in the so-called yen bloc, there is no requirement covering specie holdings in the bank or convertibility into gold or silver currency. In so far as the published data indicate,

the Mèng Chiang Bank appears to be making steady progress with its note circulation, although it may be superfluous to add that the operation of controlled currency is liable to encounter considerable difficulties unless it is undertaken with scrupulous care and skill.

The circulation of currencies other than Mèng Chiang Bank notes in the area under discussion is restricted in principle, an exception being made in case of small quantities of Manchoukuo and the Japanese notes. In reality, however, a substantial quantity of the Federal Reserve Bank of China notes has migrated into these districts along with merchandise movement between Mongolia and North China, thereby obstructing the monetary unification in the Mèng Chiang provinces. The Currency Control Law that went into effect on May 15, 1939 is calculated to restrict drastically the circulation of the Federal Reserve Bank note.

In conclusion mention should be made of the interest rates prevailing in these districts. In harmony with the tendency prevailing in China in general, interest rates formerly quoted in the Mèng Chiang districts were exceedingly high. In view of the fact that this hindered easy movement in the money market, the Mèng Chiang Bank endeavored to supply funds at low interest rates, putting into effect soon after its foundation a provisional schedule of interest rates, which was subsequently revised. According to this revised schedule, the rates for current deposits, special current deposits, and time deposits were set at 0.3 cent *per diem* per 100 yüan (1.1 per cent *per annum*), 0.7 cent *per diem* (2.56 per cent *per annum*), and 4.5 per cent *per annum*, respectively, while rates for loans were fixed at 2.2 cents *per diem* (8 per cent *per annum*) for secured time loans and current overdrafts, 2.5 cents *per diem* (9 per cent *per annum*) for clean loans, and 2 cents *per diem* (7.3 per cent *per annum*) for discounts of documentary bills and notes.

* * * * *

The foregoing treatise purports to be a report of pro-

gress as revealed in various published data gathered by the writer in his trip through these districts. These data were gathered from the Chinese Bankers' Almanac, the publications of the South Manchurian Railway Company, and several other annuals. As for the more recent changes, data were collected from publications issued either in Mongolia or in Japan.